

Surpass Chemicals Limited



ANNUAL REPORT
1968



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Surpass

Chemicals Limited

Directors

FRED W. EVANS	-	-	-	-	-	-	-	-	Toronto, Ontario
ELLIS A. CLARKE	-	-	-	-	-	-	-	-	Toronto, Ontario
GEORGE H. MONTAGUE	-	-	-	-	-	-	-	-	Toronto, Ontario
WILLIAM BLOKHUIS	-	-	-	-	-	-	-	-	Toronto, Ontario
KENNETH EASTMAN	-	-	-	-	-	-	-	-	Toronto, Ontario

Officers

FRED W. EVANS	-	-	-	-	President and General Manager
ELLIS A. CLARKE, C.A.	-	-	-	-	Vice-President and Secretary Treasurer

Transfer Agents and Registrars

GUARANTY TRUST COMPANY OF CANADA
88 University Ave.,
Toronto, Ontario.

Auditors

MESSRS. THORNE, GUNN, HELLIWELL & CHRISTENSON,
101 Richmond Street West,
Toronto, Ontario.

Bankers

TORONTO-DOMINION BANK,
Birchmount and Ellesmere Rds.,
Scarborough, Ontario.

Solicitors

BLACKWELL, HILTON, TREADGOLD AND SPRATT,
110 Yonge Street,
Toronto, Ontario.

Head Office and Plant

36 Upton Road,
Scarborough, Ontario.

West Hill Additive Plant

10 Chemical Court,
West Hill, Ontario.



President's Report to Shareholders and Employees

It gives me a great deal of satisfaction to report to you on behalf of your Board of Directors, the results achieved by your Company in 1968.

It was a record year for sales and earnings. Sales of \$2,638,351 were up 61% and earnings at \$425,128 were up 440% over the 1967 performance. The earnings were equal to 55.8¢ per share on the 764,848 shares outstanding at year end. When it is considered that 1967 was also a record year, the achievement becomes remarkable.

The gain in sales may be attributed primarily to an increased demand for newer type additives, which improve lubricant and engine performance where the use of anti-smog devices make former lubricants inadequate. Profitability has been helped by spreading of fixed costs over a greater sales base and greater manufacturing efficiency resulting from a continuing program of process and product improvement.

From the Source and Application of Funds Statement, it can be seen that \$318,567 was spent during 1968 on new plant and equipment and \$81,854 on the retirement of long term debt. In addition, working capital was improved by \$375,301. These expenditures were financed by cash generated from operations of \$530,184 and by the issuance of 50,000 additional shares from the treasury which netted \$245,538.

Your attention is also called to the fact that \$55,100 in income taxes were payable for 1968. This was after a tax reduction of \$190,730 due to the application of previous years losses and unclaimed depreciation. It is expected that sharply increased income taxes will be payable in 1969 since loss carry-forwards have now been exhausted and the only credit available to reduce income taxes is capital cost allowance in excess of the depreciation provided in the accounts.

During the year, your Company applied for and received a grant under the National Research Council Industrial Research Assistance Program. The purpose of this program is



to encourage research in Canada by giving financial assistance to Companies which, in the opinion of the N.R.C. are equipped to carry out worthwhile research projects. As a result, a staff of three chemists is now active on a longer range program for development of novel additive components. Regular expansion of this research group is planned.

The operating results for the first quarter of 1969 are not yet available, but sales were up approximately 5% over the same period in 1968. Capacity is now installed for products with a sales value of \$3.5 million per year and further additions are in progress. The extent to which sales in 1969 grow to match production capacity will depend on the outcome of a number of customer product evaluation programs now under way. We are most hopeful that a steady rate of growth can be maintained.

Your Board of Directors feel the Company is now able to meet the listing requirements of the Toronto Stock Exchange and that this is the appropriate exchange for public trading in the Company's shares. Accordingly an application for listing on the Toronto Stock Exchange is being submitted.

The continued cooperation of both shareholders and employees is most gratifying.

Respectfully submitted,

FRED W. EVANS,
President.

Toronto,
April 18, 1969.



Surpass Chemicals Limited

(formerly New Surpass)

(Incorporated under the laws of the Province of Ontario)

Balance Sheet —

(with comparative figures for 1967)

ASSETS

	1968	1967
CURRENT ASSETS		
Cash	\$ 41,869	\$ 30,627
Accounts receivable	333,180	190,153
Inventories, at lower of cost and market	444,565	235,454
Prepaid expenses	10,063	9,707
	<u>829,677</u>	<u>465,941</u>
FIXED ASSETS, at cost		
Land	49,946	49,946
Building, plant and equipment	1,723,050	1,404,483
	<u>1,772,996</u>	<u>1,454,429</u>
Less accumulated depreciation	739,665	634,609
	<u>1,033,331</u>	<u>819,820</u>
ORGANIZATION EXPENSE	2,775	2,775
	<u>\$1,865,783</u>	<u>\$1,288,536</u>

Approved by the Board:

F. W. EVANS, Director.

E. A. CLARKE, Director.

AUDITORS

To the Shareholders of
Surpass Chemicals Limited

We have examined the balance sheet of Surpass Chemicals Limited (formerly New Surpass) for the year then ended, in accordance with generally accepted auditing principles, and we have also examined the income, deficit and source and application of funds for the year then ended. Our examination was limited to the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Surpass Chemicals Limited at the end of the year then ended, and the application of its funds for the year then ended, in accordance with generally accepted accounting principles.

Toronto, Canada,
March 14, 1969.

December 31, 1967)

Thorne, Gunn, Helliwell, Christenson,
Chartered Accountants.



Surpass Chemicals Limited

Statement of Income

Year Ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
Sales	\$2,638,351	\$1,637,137
Cost of goods sold, selling and administrative expenses	2,053,067	1,467,484
	585,284	169,653
Interest on mortgages		466
Operating profit before depreciation	585,284	169,187
Depreciation	105,056	90,779
Income for the year before income taxes	480,228	78,408
Income taxes (note 1)		
Provision for the year	245,830	
Less tax reduction	190,730	
	55,100	
Net income for the year	\$ 425,128	\$ 78,408

Statement of Deficit

Year Ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
Deficit at beginning of year	\$ 702,837	\$ 781,245
Commission on issue of shares	4,462	
	707,299	781,245
Net income for the year	425,128	78,408
	\$ 282,171	\$ 702,837



Surpass Chemicals Limited

Statement of Source and Application of Funds

Year Ended December 31, 1968
(with comparative figures for 1967)

Source of funds	1968	1967
Operations		
Net income for the year	\$ 425,128	\$ (78,408)
Depreciation which does not involve a current outlay of funds	105,056	90,779
	530,184	169,187
Issue of 50,000 shares of capital stock less commission of \$4,462	245,538	
	775,722	169,187
Application of funds		
Expenditures on fixed assets	318,567	55,116
Decrease in long-term liabilities	81,854	
	400,421	55,116
Increase in working capital position	375,301	114,071
Working capital deficiency at beginning of year	112,419	226,490
Working capital (deficiency) at end of year	\$ 262,882	\$ (112,419)

Notes to Financial Statements

Year Ended December 31, 1968

1. For 1968 income tax reduction was realized on carry forward of prior years' losses and claiming of capital cost allowance in excess of depreciation provided in the accounts.

No provision for income taxes was required for 1967 because the company claimed for tax purposes capital cost allowance in excess of depreciation provided in the accounts.

2. The remuneration of directors and senior officers, (as defined by The Corporations Act) amounted to \$68,282 during 1968.



Surpass Chemicals Limited

10 Year Comparative Summary of Income

Year	Sales	Cost of goods sold, selling and administrative expenses	Operating Profit (loss) before depreciation and income taxes	Depreciation	Income taxes (net of reduction)	Net income (loss) for the year
1959	\$ 310,010	\$ 422,376	\$ (112,366)	\$ 51,099		\$ (163,465)
1960	625,902	614,622	11,280	51,616		(40,336)
1961	700,239	668,095	32,144	51,824		(19,680)
1962	683,292	603,711	79,581	52,702		26,879
1963	617,793	622,046	(4,252)	56,907		(61,159)
1964	1,001,887	892,361	109,525	65,868		43,657
1965	1,076,446	967,861	108,585	68,560		40,025
1966	1,069,734	1,054,754	14,981	69,066		(54,085)
1967	1,637,137	1,467,950	169,187	90,779		78,408
1968	2,638,351	2,053,067	585,284	105,056	\$ 55,100	425,128



Surpass Chemicals Limited

The Company and its Products

The Company manufactures and sells lubricants and lubricant additives. Its principal customers are major oil companies and wholesale distributors and marketers of petroleum products. A number of copyrighted trade names, familiar to the industry, are used to describe the Company's products, but these brand names do not appear at the retail or end-user level.

Additives account for the bulk of production. These are used mostly in oils for internal combustion engines and perform such functions as sludge dispersion, rust prevention and oxidation inhibition. Modern engine design demands performance levels in lubricants which can only be achieved through the use of additives. The field includes automotive, diesel, marine, aircraft and industrial engines.

A small scientifically oriented sales force, backed up by a continuous program of research and development, is essential for success. While the number of customers is relatively small, the number of individuals involved in a lubricant reformulation decision is sizable, so that sales coverage must be made in depth. Furthermore, since sales are made up on the basis of cost and performance, sales personnel must possess technology in both the preparation and application of additives.

Products are sold in varying concentrations and different units of measurement. It is not meaningful, therefore, to tabulate production in physical terms. The sales value, as shown on the financial statements, gives perhaps the best indication of the Company's size and growth.

Products are shipped in tank cars, drums and occasionally bulk marine shipments. For the past five years over 50% of the Company's sales were exported. Destinations include the United States, United Kingdom and Europe.

The Company currently employs 52 people.



Surpass Chemicals Limited

Manufacturers of

OIL ADDITIVES

LUBRICATING OILS AND GREASES

RUST PREVENTIVES

CUSTOM FORMULATIONS



Printed in Canada